



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0506	Title:	Allowing microdistilleries to deliver products directly to agency liquor stores
Primary Sponsor:	Moore, David (Doc)	Status:	As Amended

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Other	\$122,488	(\$5,024)	(\$5,024)	\$0
Revenue:				
General Fund	(\$122,488)	\$5,024	\$5,024	\$0
Other	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$122,488)</u>	<u>\$5,024</u>	<u>\$5,024</u>	<u>\$0</u>

Description of fiscal impact: HB 506, as amended, allows a distillery that produces less than 25,000 gallons of product annually to deliver its product directly to an agency liquor store. Due to the timing of freight payments, there will be a decrease in expenditures for the Liquor Enterprise Fund in FY 2016 to FY 2018. The department is required to create an electronic reporting system for distilleries to record their deliveries. This will be a one-time cost to the Liquor Enterprise Fund of \$125,000 in FY 2016. Both of these revenue effects will decrease transfers from the Liquor Enterprise Fund to the general fund by \$122,488 in FY 2016 and will increase transfers to the general fund by 5,024 in FY 2017 and FY 2018.

FISCAL ANALYSIS

Assumptions:

- HB 506 allows distilleries producing less than 25,000 gallons of product annually to deliver their product directly to an agency liquor store beginning January 1, 2016.

2. Under current law, the department pays the freight rate to the contracted company currently delivering the product for the state. HB 506 instructs the department to pay the freight rate to distilleries delivering product directly to an agency liquor store.
3. The section of the bill concerning freight payments is effective July 1, 2018. Therefore, beginning in FY 2019, freight payments will be made to the department's current contracted freight company or to the distillery depending on who is making the delivery. Between January 1, 2016 and July 1, 2018, the freight payments for liquor sold by distilleries to an agency liquor store will not be paid to the current contracted company or to the distilleries making the delivery. This will decrease the costs for the Liquor Enterprise Fund between FY 2016 to FY 2018.
4. This fiscal note assumes that distilleries will choose to deliver directly to agency liquor stores in their immediate market (their own community). In 2014, approximately 3,200 cases of Montana distilleries product was sold within its immediate market.
5. The current freight rate is \$1.57 per case. Therefore, there will be a cost savings to the Liquor Enterprise Fund of \$2,512 in FY 2016 (3,200 cases * \$1.57 * 0.5 fiscal year) and \$5,024 in FY 2017 and FY 2018 (3,200 cases * \$1.57).
6. Changes to the department's computer systems including the requirement to create an electronic reporting system for distilleries to record their deliveries and invoicing system for agency liquor stores results in a one-time cost to the department \$125,000 in FY 2016. These costs are assumed to be paid from the Liquor Enterprise Fund.
7. Net profits from the Liquor Enterprise Fund are transferred to the general fund. Therefore, in FY 2016, there will be a decrease of \$122,488 transferred to the general fund (\$125,000 in assumption #6 - \$2,512 in assumption #5). In FY 2017 and FY 2018 there will be an increase of \$5,024 per year transferred to the general fund.

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Expenditures:</u>				
Operating Expenses	\$122,488	(\$5,024)	(\$5,024)	\$0
TOTAL Expenditures	<u>\$122,488</u>	<u>(\$5,024)</u>	<u>(\$5,024)</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Other	\$122,488	(\$5,024)	(\$5,024)	\$0
TOTAL Funding of Exp.	<u>\$122,488</u>	<u>(\$5,024)</u>	<u>(\$5,024)</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	(\$122,488)	\$5,024	\$5,024	\$0
Other	\$0	\$0	\$0	\$0
TOTAL Revenues	<u>(\$122,488)</u>	<u>\$5,024</u>	<u>\$5,024</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$122,488)	\$5,024	\$5,024	\$0
Other	(\$122,488)	\$5,024	\$5,024	\$0

Technical Notes:

1. This bill does not specify how soon the distillery must report the deliveries made. The department suggests adding clarification that the reporting needs to take place the day of the delivery so that the Liquor Control Division can properly invoice the agency liquor store.

Sponsor's Initials

Date

Budget Director's Initials

Date